

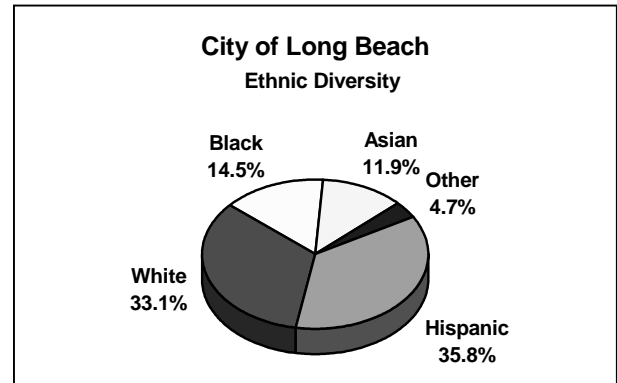
Understanding the City's Budget



City of Long Beach Demographics

GOVERNMENT

The City of Long Beach, California covers approximately 52 square miles on the southern coast of Los Angeles County. With a current population of 491,564, Long Beach is the second largest city in Los Angeles County and the fifth largest city in the state. It is a diverse and dynamic city that, based on the 2000 Census, has the following ethnic breakdown: 35.8% Hispanic, 33.1% White, 14.5% Black, 11.9% Asian, and 4.7% all other ethnicities.



Long Beach was originally incorporated in 1888. After a short period of disincorporation, the City was reincorporated on December 3, 1897. Since 1921, Long Beach has been governed as a charter city, and operates under a Council-Manager form of government.

The City Council is made up of nine members, elected by district. The Mayor is chosen in a citywide election to serve as the full-time chief legislative officer of the City. Although the Mayor does not vote, the Mayor presides over City Council meetings, presents the annual budget to the City Council and has veto power over Council actions. The Vice-Mayor is elected by the Council from among its members.

The City has three other full-time elected officials: City Attorney, City Auditor and City Prosecutor. The City Council appoints the City Clerk and City Manager. The Mayor nominates and the City Council approves members to various boards and commissions. The Civil Service Commission, Board of Water Commissioners and Board of Harbor Commissioners oversee operations of their respective departments while all other City departments report directly to the City Manager.

The City Manager serves at the discretion of the City Council. As head of the municipal government, the City Manager is responsible for the efficient administration of all departments, with the exception of the elective offices and the three semi-autonomous commissions. The City currently employs approximately 5,626 full-time equivalent positions within 22 departments.

In addition to the usual municipal services of police, fire, parks and recreation, public works, and library, the City of Long Beach owns and operates a leading deep-water port, offshore and onshore oil production, a gas utility, a water utility, a convention and entertainment center, aquarium, museum, two historic ranchos, a commercial airport, marinas and golf courses.

EDUCATION

The Long Beach Unified School District is the third largest public school system in California serving 93,408 kindergarten through twelfth grade students in 2004. The district's 95 schools are located in Long Beach, Signal Hill, Lakewood and on Catalina Island. Additionally, Long Beach also offers a City College, educating over 30,000 students. The college offers 95 Associate of Arts/Science degree programs, 81 Career Certificate programs and the opportunity to complete up to two years in any of 58 baccalaureate programs for transfer to a four-year college or university (LBCC 2004).

California State University, Long Beach (CSULB) is the State University system's second largest campus. With approximately 33,479 students enrolled in the 2004-2005 school year, CSULB offers 80 baccalaureate programs, 66 master degree programs and one joint doctoral degree.

BUSINESS AND INDUSTRY

The City of Long Beach is a center for aerospace, petroleum, shipping and tourism, along with a wide variety of office and retail opportunities. Downtown alone is home to 4.2 million square feet of commercial office space.

Currently, the largest employer within the City is the Boeing Corporation, which operates a 424-acre facility at the Long Beach Airport and employs approximately 10,400 persons. The facility exceeds 6.7 million square feet of space and is currently utilized for the production of the Boeing 717 commercial jetliner, the C-17 military transport plane and program support for production lines in other locations. In what will be one of the region's largest land redevelopment efforts, Boeing is in the process of converting 260 acres of their facility from industrial to mixed commercial/residential use in an effort to provide quality industrial, research and development space.



Downtown Long Beach overlooking the Port.

The City's second largest employer within the city is the Long Beach Unified School District, which operates 91 regular and four charter schools. The district's workforce of over 8,000 employees ensures the success of students by maintaining high standards, a commitment to excellence, and by offering a comprehensive scholastic program. Exhibit 1 provides a breakdown of the top 10 employers in Long Beach as of 2005.

Oil production, private and municipally-owned, continues to be an important business in Long Beach with both offshore and onshore facilities. The Long Beach Unit Optimized Water-Flood Injection Process, authorized by State legislation, has improved oil recovery and lengthened field life in the Wilmington Oil Field. Continued application of new technology is expected to further increase oil recovery.

Exhibit 1: Top 10 Employers in Long Beach

Rank	Employer	Employees As of May 2004
1	Boeing	10,400
2	Long Beach Unified School District	8,355
3	CSULB (includes part-time)	6,000
4	City of Long Beach (includes part-time)	5,626
5	L.B. Memorial Medical Center	5,030
6	Veterans Administration Medical Center	2,345
7	United States Postal Service	1,900
8	Long Beach City College	1,810
9	St. Mary's Medical Center	1,765
10	Verizon	1,025

** Numbers based on May 2005 Economic Development Department Survey*

The Port of Long Beach remains one of the busiest container ports in the world. During Fiscal Year 2004, throughput increased by almost 20 percent, exceeding 5.7 million twenty-foot equivalent units (TEU). International trading partners include the Pacific Rim nations of Japan, China, Taiwan, and Korea. In addition to containers, the Harbor facility handles crude and refined petroleum products, dry bulk such as coal, coke and cement; automobiles, lumber, paper and fruit; steel and scrap metal.

As California's largest urban Enterprise Zone, Long Beach offers businesses five categories of State tax incentives aimed at stimulating new private investment, business expansion and job creation. These incentives include: sales tax credits; hiring tax credits; business expense deductions; net operating loss carryover and a net interest deduction for lenders. Over 10,000 businesses of varying sizes operate in the Enterprise Zone. The Enterprise Zone designation is in place until 2007.

Tourism continues to be a growing industry in Long Beach, and the city attracts over 5.5 million visitors a year. A vital part of that industry is the Long Beach Convention and Entertainment Center. The Center's facilities include a 224,000 square-foot exhibit hall, 83,000 square feet of meeting room space, a ballroom able to comfortably seat 1,600, a 13,600-seat arena and two theaters in the elegant Long Beach Performing Arts Center. Additionally, over 2,500 hotel rooms are within walking distance of the Convention Center.



Long Beach Aquarium of the Pacific at night.

The world-class Long Beach Aquarium of the Pacific, on Rainbow Harbor, is located across the water from the Convention Center, Shoreline Village and the historic Queen Mary. The Aquarium is home to 12,500 marine animals from over 1,000 species indigenous to the Pacific Rim. It is a milestone in design, architecture and technology for the 21st century.

MAJOR DEVELOPMENTS

Douglas Park, a model of mixed-use development, is expected to break ground in late 2005. In December 2004, the City Council granted project approvals for the redevelopment of approximately 261 acres of former and existing Boeing C-1 aircraft production facilities at the southwest corner of Carson Street and Lakewood Boulevard. Of the 261 acres, 238 acres are within the City of Long Beach, with the remaining 23 acres being in the City of Lakewood.



Renderings of Long Beach Douglas Park.

The planned mixed-use community in East Long Beach will include up to 3.3 million square feet of commercial and office space, up to 200,000 square feet of retail space, a maximum 1,400 residential units, up to 400 hotel rooms and over 11 acres of public parks.

The Long Beach Sports Park and Youth Golf Facility is an exciting project that is currently in the development stages. The proposed 56-acre park site will be bordered by Willow, California, Orange and Spring Streets. In 1992, the voters of the County of Los Angeles approved a bond issue that contained \$6.2 million for the development of a sports park in Long Beach. In 1997, the City selected the current location as the potential site for development, which would include the following recreational amenities: six softball/baseball diamonds, four soccer fields, a skate park, batting cages, two playgrounds, volleyball courts and a youth golf training facility. The development of this site will not only provide much-needed recreational opportunities, but it will also clean up an underutilized former industrial site.

Davenport Park is another important part of the ongoing effort to provide increased open space and recreation facilities to areas of the City that are most underserved. The City of Long Beach

is developing a 5.5-acre neighborhood park located on the east side of Paramount Boulevard, between Candlewood Street and South Street. In 2001, the Redevelopment Agency acquired the abandoned site, which will be transferred to the City upon completion of the park development. Ground breaking is scheduled to begin in the next few months. When completed, the park will include a multi-purpose sports field, play area and parking.



Renderings of proposed Long Beach parks.

New mini-parks in North Long Beach are also adding increased recreational space for our city's youth. The construction of the beautiful new mini-park at the corner of Market Street and Dairy Avenue, named Burton W. Chace Park, was completed in May 2005. The park includes picnic tables, an open play area, sand box, a children's play structure as well as a water play feature. Ground breaking for a mini-park at the corner of Plymouth Street and Elm Avenue is scheduled for the early fall 2005. The park design will include an open turf area and play area, a children's play structure, sand box, picnic tables with barbeque grills, a walking path along the perimeter of the park and a community garden. Moreover, trees, security lighting and buffer planting are included in the design to mitigate the park's effect on existing residential properties.

The North Village Center Revitalization Project is another exciting project seeking to strengthen the economic vitality of Long Beach neighborhoods. In the North Long Beach Redevelopment Project Area, two commercial corridors along Atlantic Avenue and Long Beach Boulevard have been identified for potential new development. Redevelopment Agency staff continues to work collaboratively with the community and with staff from the City's Economic Development Bureau at assisting small businesses with start-up grants, business counseling and business loans in these important project areas.

In the downtown, the West Gateway area redevelopment is now underway. Embodying principals of "Smart Growth," the City of Long Beach is pursuing a unique public/private economic development partnership to develop a new transit-oriented urban neighborhood on all or portions of 8 square blocks situated at the entry to the City's downtown core. This master planned effort includes a new public elementary school (now completed) and the development of approximately 800 ownership and rental housing units, incorporating resident-serving retail within an enhanced urban community. West Gateway is a critical element in the revitalization of greater downtown Long Beach.

The Promenade is another downtown development expected to revitalize the area with an exciting array of uses. The Redevelopment Agency is developing an urban, pedestrian-oriented, mixed-use development along The Promenade between 1st and 3rd Streets. Also on The Promenade are the newly refurbished Insurance Exchange Building Lofts and the Embassy Suites on The Promenade.



Renderings of Promenade Development between 1st and 3rd Streets in Downtown Long Beach.



The Budget Process

The Fiscal Year 2006 (FY 06) Budget covers the period October 1, 2005 through September 30, 2006. The following is a description of the City's multi-dimensional Budget Process, which is designed to promote transparent communication with community stakeholders and provide multiple opportunities for direct community input.

THE BUDGET PROCESS

The Budget is the most important policy document the City produces on an annual basis. The program and financial decisions it embodies must reflect the will of the community through the policy direction of the City Council. This can only be achieved through a development process that encourages communication and transparency, seeking input from a diverse cross-section of the community, while offering opportunities for review and revision. The following is the general budget preparation process, which utilizes the City's Financial Strategic Plan (Plan) as a guide for budget development.

Beginning in January, the City Council's Budget Oversight Committee (BOC) initiates monthly meetings. In February, the City Manager, through Financial Management, provides clear budget development instructions to departments, requesting they begin updating their department's Plan strategies and making initial estimates for their proposed and capital operating budgets.

From March through June, departments complete their proposed budgets based on updated revenue and expenditure recommendations contained in the Plan. In July, the City Manager assembles department proposals into a coherent Proposed Budget that reflects the economic environment, fiscal condition and priority needs of the City.

A series of community events designed to encourage active public dialogue regarding the Proposed Budget is initiated in mid-March, culminating in the Budget's adoption by the City Council in September. Activities include BOC meetings, a citywide Budget Summit, neighborhood board, committee & commission meetings, and City Council budget workshops and hearings.

As mandated by the City Charter, the City Manager submits the Proposed Budget, on or before August 1 to the Mayor for review. The Mayor reviews the Proposed Budget and submits it, along with any recommendations, to the City Council on or before August 15. Subsequently, the BOC submits their recommendations to the City Council for consideration. By City Charter, the annual City Budget for City funds and departments must be adopted prior to October 1, the beginning of the new fiscal year.

FY 06 BUDGET PREPARATION CALENDAR

Jan	Budget Oversight Committee meeting initiative
Feb	City Manager issues budget preparation policies and instructions to departments
Mar - Jun	Departments complete their Plan updates, operating and capital budget proposals City Council budget workshops initiated
Jul	City Manager previews Proposed Budget at citywide Budget Summit
Aug 1*	City Manager submits Proposed Budget and CIP budget to Mayor
Aug 15*	Mayor submits Annual Budget with recommendations to City Council and Community
Aug 24	BOC submits recommendations to the City Council
Aug	Community input continues through staff budget presentations at neighborhood board, committee and commission meetings as well as City Council and BOC workshops
Sept	Weekly budget workshops and hearings continue at City Council meetings until Budget is adopted
Sept 30*	Budget adopted
*On or before	

The Budget Document

The Budget document is divided into seven sections: Understanding the Budget, Focus On Results (FOR) Long Beach, Financial Strategic Plan, Budget Summaries, Program Budgets by Department, Fund Summaries and the Capital Improvement Program.

Understanding The Budget

This section provides demographic and other information on the city's government, educational sector, economy and other information to provide a context for the City's service environment and priorities. The Budget Process, the Budget document and the fundamentals of the City's financial management are also discussed. Lastly, background information about the City's main revenue sources is also provided.

Focus On Results (FOR) Long Beach: Performance Management Initiative

This section describes the City's comprehensive performance management system designed to align the City's major business processes around City Council and community priorities, maximize the efficiency and effectiveness of government services and programs, assess service delivery performance and provide a framework for identifying needed resource reallocation.

Financial Strategic Plan

The City's Financial Strategic Plan (Plan) was designed to be a living document that must be updated to capture and reflect the changing fiscal and service delivery environment, and to ensure that the cost/service reductions and revenue enhancing ideas were appropriate and reflected the will of the community. The Plan represents the culmination of months of deficit reduction proposals, discussions and deliberation amongst the City Council, the community, employees throughout the organization and all City Manager-department directors, and provides additional recommendations to address changes in structural deficit assumptions.

Budget Summaries

Several summaries of department and fund budgets are provided, with multi-year comparisons of expenditures and revenue. Also included is a three-year schedule of Full-Time Equivalent staffing for each department.

Program Budgets by Department

The FY 06 Program Budget reflects the first year implementation of the City's FOR Long Beach performance management system. As part of the FOR Long Beach strategic business planning process, all City Manager-directed departments have developed a program structure and basic output, or workload, program performance measures for FY 06. Only two departments, Community Development and Parks, Recreation and Marine, have developed additional outcome, demand and efficiency measures. The program structure and performance measures serve as the basis for the City's performance-based program budget and add clarity to the City's budget by aligning background information (a purpose statement and listing of services), budget allocations, and basic performance information, all at the program level. In this section, information on the departments' programs, mission, significant challenges and opportunities, and proposed structural deficit solutions, will accompany program-specific proposed financial and staffing information.

Additionally, a summary of total Department expenditures is included in this section to show operational costs, using the following “characters of expense”: Salary, Wages, & Benefits; Materials, Supplies & Services; Internal Support; Capital Purchases; Debt Service; Transfers from Other Funds; and, Prior Year Encumbrances.

Fund Summaries

The Budget includes spending from many different “funds” that are required to be reported by State or Federal law, the City Charter and/or proper accounting practice. A fund consists of a separate set of accounts used to monitor the accomplishment of specified purposes, or uses of restricted revenue. Depending on the type of service provided, department expenditures may be authorized from a number of funds. Most traditional City services are funded through the General Fund.

The Capital Improvement Program

The Capital Improvement Program (CIP) represents expenditures for major construction or repair of City facilities and buildings. A committee of department representatives meets during the year to select projects to be initiated, funding sources and the operating impacts on the General Fund. The CIP, as presented in this section, is adopted annually by the City Council as part of the budget process. A separate CIP document, the FY06 Proposed CIP, provides greater detail about ongoing and proposed CIP projects.

FINANCIAL INFORMATION

Adjustments to the Budget

During a fiscal year, special circumstances may result in changes to department spending priorities. Appropriations are made at the fund and department level. Budget adjustments that require a modification to the amounts authorized by the Appropriations Ordinance require the approval of the City Council. Transfers between programs or “characters of expense” require City Manager approval.

Basis of Accounting*

Governmental funds and expendable trust funds are maintained on the modified accrual basis of accounting. Revenue is recognized in the accounting period in which it becomes measurable and available. Expenditures are recognized in the period in which the liability is incurred, if measurable, except for unmatured principal and interest on general obligation debt, which is recognized when due.

**This information is taken from the Comprehensive Annual Financial Report (CAFR) of the City of Long Beach, California – September 30, 2004. For further information regarding the City’s accounting and debt management practices, please consult the CAFR.*

Accounting Basis of Budgeting

The generally accepted accounting principles used as the basis to prepare this Budget are the same as those used to prepare the annual financial report with the following exceptions: (1) encumbrances are considered to be expenditures for budget purposes but are not included in financial reporting; and (2) land held for resale is recorded as an expenditure when purchased and a revenue when sold for budget purposes. For financial reporting purposes, land is held as an asset and a gain or loss is recognized at the time of sale.

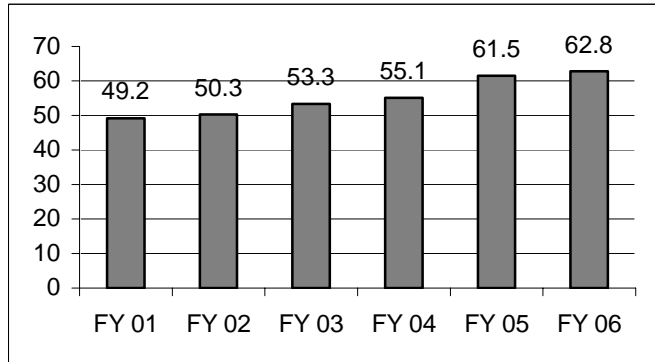
Investment Management

This function's primary goal is optimizing return on investment, while safeguarding principal and ensuring liquidity levels necessary to pay for budgeted expenses. The City maintains general bank accounts for daily business requirements, but the majority of the City's funds are held in an investment pool administered by the City Treasurer. As of September 30, 2004, the Treasurer's investment pool was approximately \$1.219 billion divided into short-term and long-term portfolios. To measure performance, the City uses two benchmarks: the 91-Treasury Bill benchmark for the short-term component and the Merrill Lynch 1-3 year Treasury/Agency Index for long-term component.

General Fund Revenue

PROPERTY TAXES

Approximately 17.2 percent or \$62.8 million of the City's General Fund revenue is derived from local property taxes, which includes secured real property tax and unsecured personal property tax, net of refunds. Property, primarily land and buildings, is valued by the County Assessor and taxed at 1 percent of assessed value. Cities and other local agencies, such as schools, special districts, and the County of Los Angeles, share in the countywide property tax pool. The City of Long Beach only receives approximately 21 percent of property taxes paid by City property owners. In addition, the City's Redevelopment Agency receives 100 percent of certain specified property tax revenues generated within the redevelopment project areas. Due to the economy's growth and affect on property values, FY 06 property tax estimates assume revenue increases above FY 05 receipts. Property in the State of California is generally reassessed only upon change of ownership.

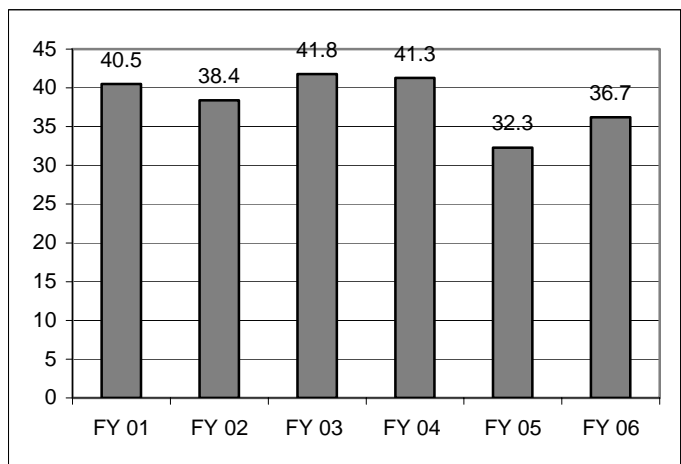


The continuing inability of the State of California to provide funding for State programs through its ongoing revenues has required that the State turn to local government for help. As a result, the City's property tax estimates reflect the cumulative loss of \$4.8 million in FY 93, an additional \$8.7 million in FY 94, another \$0.9 million loss in FY 95 plus \$0.9 million in FY 95/FY 96 as a retroactive assessment, and \$0.3 million in FY 98. This \$15.6 million cumulative loss of property tax revenue is ongoing. To date losses equal approximately \$174 million.

Property tax is a major source of revenue for critical City services such as police, fire, public works, recreation, and library services. Prior to the passage of Proposition 13 in 1978, property tax revenues accounted for approximately 28 percent of all General Fund revenues as compared to 16 percent now. Other revenues have been used to augment the decrease in this revenue source.

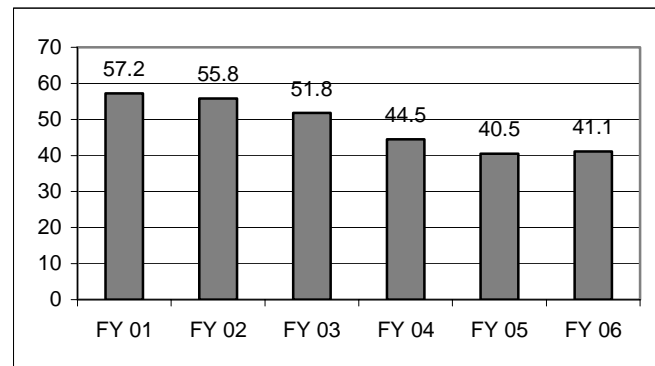
SALES TAX

Sales tax receipts are expected to account for \$36.7 million, or 9.9 percent of all General Fund revenues for FY 06. All taxable retail sales in Long Beach are charged an 8.25 percent tax. This amount includes 1.25 percent that goes to the County of Los Angeles, and 6.25 percent that is retained by the State. Only 0.75 percent is returned to the City by the State. Sales tax revenue varies from year-to-year due to fluctuations in the economy. The City must continue to promote economic development in order to bring sales tax revenues to a level comparable to other cities in Los Angeles County.



UTILITY USERS TAXES

The City applies a utility users tax to customer's electricity, gas, telephone, and water bills. These four revenue sources account for \$41.1 million or 11.2 percent of the City's General Fund revenues. A voter-approved initiative reduced the utility user tax rate from 10 percent to 5 percent over a five-year period. The rate for FY 06 is 5 percent, effective October 1, 2004. These taxes do not apply to low-income senior citizens who are over 62 years of age or disabled low-income individuals.



OTHER TAXES

The City receives revenue from the Transient Occupancy Tax assessed on guests of all City hotels and motels, and from the Business License Tax assessed on all those doing business in Long Beach. Both taxes have rebounded from earlier slumps related to the general economic recession and September 11, 2001.

LICENSES AND PERMITS

This revenue comes to the City from a variety of licenses and permits. The largest revenue is generated by sale of building permits, building plan check fees, emergency ambulance fees and dog licenses.

FINES, FORFEITURES AND PENALTIES

Revenue is received by the City in this category primarily from vehicle code fines and parking citations.

REVENUE FROM USE OF MONEY AND PROPERTY

The City is able to generate income from its current assets. This includes interest earned on investments, land and facility rental, and parking meter revenue within the City. Interest earnings have been negatively affected by the decrease in interest rates.

REVENUE FROM OTHER AGENCIES

The General Fund receives revenue from other cities, the County of Los Angeles and the State. Revenue is received for the maintenance of traffic signals and parking meters under contract with smaller cities neighboring Long Beach, as well as unincorporated parts of Los Angeles County. The State provides funding through the Motor Vehicle In Lieu Tax. Other miscellaneous State funds are provided for maintenance of State highways, fire and peace officer training, and police extradition reimbursements. The budget reflects legislative action enacted that shifted all Cigarette Tax revenues to the State's General Fund. Due to Proposition 57, the State has "flipped" 0.25 percent of Sales and Use Tax for an equal amount of ERAF Property Tax to help fund the State's Economic Recovery Bonds. The replacement property tax will be titled "In Lieu Sale and Use Tax" and will be received on a semi-annual basis.

OTHER CHARGES AND REVENUES

These miscellaneous charges include library fines and fees, police reports and sale of used equipment and vehicles.

INTER- AND INTRA-FUND CHARGES

Programs within the City that are funded by sources other than the General Fund often receive services from General Fund supported departments. This category includes reimbursement for these services.

TRANSFERS FROM OTHER FUNDS

This category includes transfers, in lieu of property tax, to the General Fund from City enterprise and utility operations.

"GANN" APPROPRIATIONS LIMIT

In November 1979, the voters of the State of California approved Proposition 4, commonly known as the "Gann Initiative." The Proposition created Article XIII B of the State Constitution, placing certain limits on the amount of revenue that can be appropriated each fiscal year. The limit is based on actual appropriations during FY 79. Only those revenues that are considered "proceeds of taxes" are subject to the limit. The limit is recalculated each fiscal year based on certain inflation and population factors. Proceeds of taxes are, however, allowed to be spent on several types of appropriations that do not count against the limit, including voter approved debt, the costs of complying with court orders and federal mandates, and expenditures for qualified capital outlays.

The "Gann" Appropriations Limit for the City of Long Beach for FY 06 has not yet been determined. However, the City does not anticipate a significant change from the FY 05 limit. Therefore, no Gann Limit issue is anticipated.

